

Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

30 September 1982

The Philippines: Growing Economic and
Internal Security Problems

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Introduction

As long as Ferdinand Marcos is in power, we believe the Philippines will remain a close ally of the United States. Marcos faces no unmanageable political challenges during the next several years, provided that he remains healthy. However, over the longer term, he faces major security, economic, and political challenges that will have important implications for the Philippines's political stability:

- Although the Muslim insurgency is likely to remain manageable, Marcos must complete the formulation of a coherent social and military strategy to contain the Communist insurgency.
- Legislative elections are scheduled for 1984, and Marcos will have to decide whether to allow the development of a viable moderate opposition. If he does not, he will face an even more polarized political arena.
- He will have to solve his economic crises and provide jobs for a growing labor force.

If Marcos wavers in his commitment to solving any of these problems, the mid-1980s could be turbulent.

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This memorandum, requested by Secretary of Defense Caspar W. Weinberger, was prepared by [redacted] Southeast Asia Division, Office of East Asian Analysis. Information available as of 30 September 1982 was used in its preparation. Comments and queries are welcome and may be directed to Chief, Southeast Asia Division, OEA, [redacted]

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The United States unavoidably will be drawn into internal Philippine affairs by base negotiations. The review of the military bases agreement will be a convenient target for Marcos's political opponents. Opponents of the regime residing in the United States are certain to capitalize on the base negotiations to publicize their case for a change in government. [REDACTED] 25X1

Administrative Control

After 17 years in power, President Marcos remains firmly in control of the Philippines. The regime shows signs of fatigue but retains its basic political strengths. A flurry of legal maneuvering after martial law was ended in January 1981 established most of the President's martial law powers in a new institutional format. Marcos continues to dominate the 191-member National Assembly through the tight discipline of his ruling New Society Movement. He also avoids the legislative process through his use of presidential decrees, some of which remain secret. The moderate political opposition, which most Filipinos regard as no better than the government, shows signs of activity, but it remains thoroughly outmaneuvered by Marcos. In addition, coalitions among moderate groups constantly change because of factionalism along personal and geographic lines. [REDACTED] 25X1

Marcos's restrained use of his powers since the end of martial law has produced a relatively lively political arena. Students have become more openly critical of the government. The press, though largely controlled by people loyal to Marcos, cautiously has ventured into new journalistic territory. Marcos's crackdown on radical groups and his preemptive arrest of radical labor leaders immediately before his state visit to Washington reflects his determination not to permit signs of dissent to mar an important occasion. [REDACTED] 25X1

Although Marcos's state visit appears to have strengthened his domestic political support, we believe he faces two increasingly difficult and interrelated situations: a deteriorating economy and a growing communist insurgency in the depressed rural areas.

- With the economy beset by what may be the first negative growth rate in modern Philippine history this year, unemployment is rising rapidly.
- The slowdown has been accompanied by a sharp deterioration in the balance of payments and a potentially troublesome increase in foreign debt.
- Falling rural incomes are of special concern because the rural insurgency appears connected to economic factors.

- A young and rapidly growing population promises unprecedented labor force growth at a time when rising repayment obligations on the \$18 billion foreign debt make it difficult to find investment funds for job creation.

As a result, if the world economy has not significantly improved by the time the negotiations on US bases begin, Manila may be in serious financial trouble and in need of major economic assistance. [REDACTED]

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The Economy: Growing Financial Strains

The Philippine economy faces worsening recession and growing balance-of-payments deficits. In 1981 the economy posted its lowest rate of real growth--officially 3.8 percent but probably closer to zero--and its worst current account deficit (\$2.6 billion) in over a decade. Aggressive commercial borrowing boosted the foreign debt to nearly \$16 billion by yearend, about 40 percent of GNP. It is now about \$18 billion. A domestic liquidity crisis, caused by the collapse of financial houses providing most of the country's short-term corporate financing, further weakened an already shaky private sector and required massive--and highly controversial--financial assistance by government-owned banks. [REDACTED]

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This year is turning out even worse. According to Philippine government surveys, unemployment is 14 percent nationwide and almost twice that in politically strategic metropolitan Manila. In a desperate attempt to save thousands of copper mining jobs, the government promised this summer to buy the output of all the country's copper mines at above market prices. [REDACTED]

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Real wages remain stagnant, continuing a trend under way since 1979. In addition, poor corporate earnings are encouraging many employers to take a tougher line with organized labor, contributing to worsening industrial relations. At the same time, low international prices for Philippine agricultural exports have eroded gains in rural living standards that were achieved during the 1970s and are, we believe, largely responsible for the recent growth of a rural Communist insurgency. Increasingly concerned, Marcos last month adopted several measures designed to revive the devastated coconut industry, which supports about one-third of the country's population. [REDACTED]

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The slowdown in the domestic economy has been accompanied by a sharp deterioration in the country's international financial performance--traditionally better than most LDCs. The Philippines posted a \$560 million balance-of-payments deficit in 1981, which it surpassed in the first two quarters of 1982 with an unprecedented \$675 million deficit. High global interest rates

have hit external accounts especially hard, requiring over \$2 billion in foreign currency just to service outstanding medium- and long-term foreign loans. To make matters worse, short-term obligations now approach \$5 billion--nearly twice the Central Bank's gross international reserves. Although Manila is not to the point of seeking to reschedule its debts, it will find itself with serious repayment problems by late 1983 unless export earnings pick up significantly. [REDACTED]

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Philippine balance-of-payments problems will ease only slightly with the beginning of a world economic recovery. No rebound in the international price of sugar, coconut products, and other exports vital to the health of the rural economy is imminent. At the same time, we expect Philippine imports to continue at their current record level, in part because large quantities of imported capital equipment are needed for both industrial restructuring and the ambitious energy diversification program. Lower world oil prices are not helping the Philippines; most oil is imported under contracts signed several years ago. These factors, combined with prospective debt service payments approaching \$3 billion in 1983, mean continued external financial problems. [REDACTED]

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Manila will remain dependent on international financial institutions and private foreign banks for financing its continuing large current account deficits. Philippine borrowing in 1983 will be on stiffer terms than in the past, however, and may add to medium-term financial problems. Private bankers were concerned about their Philippine exposure even before Mexico's debt problems sent shock waves through the international financial community and are likely to be more so in the future. Recent Philippine unwillingness to meet IMF conditions for additional balance-of-payments assistance has further aggravated the situation. Although the program of economic liberalization mandated by the IMF and the World Bank in return for financial assistance has so far been on track, leading industrialists favored by Marcos during eight years of martial law stand to lose as a result of trade and financial reforms. They may shift political loyalties rather than adapt to new rules that will lessen the benefits of a palace connection. Marcos is well aware of these conflicts, but we expect him to continue a cautious overhaul of economic policy in return for needed economic assistance. [REDACTED]

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Even so, we are not certain that reform will offset the negative effects of a growing public sector on the economy's resiliency. World recession has forced Manila into a preoccupation with short-term financial problems that could stifle the shift of resources into more productive areas. Retarding import growth by further slowing the economy is an

option Marcos wants to avoid because of its political costs. However, if short-term economic or political problems lead Marcos either to defer reform or to assume responsibility for most private sector debt problems, the outcome could be a socially disruptive development slowdown later in the decade. [REDACTED]

The NPA Insurgency: A Growing Communist Threat

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The major security threat facing the Philippines is a rural-based insurgency led by the New People's Army (NPA), the armed wing of the Communist Party of the Philippines (CPP). [REDACTED]

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[REDACTED] The NPA's military operations now extend to nearly all major regions of the country. Although the guerrillas operate from remote regions in the islands, they frequently launch attacks in more populated areas and the results of their actions are increasingly visible in larger cities and towns. [REDACTED]

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Because it is so widely spread out, the NPA can usually mobilize only relatively small bands of guerrillas. Most NPA attacks are confined to squad-sized (six to 12 men) assaults on isolated military outposts, ambushes, and selected murders of local officials, landowners, and military personnel. Only in certain areas of Samar and Mindanao has the NPA demonstrated the capability or willingness to launch assaults involving forces as large as 100 men or engage in prolonged firefights. [REDACTED]

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The NPA's limited military capability partly reflects the CPP's long-term revolutionary strategy. At present, the rebellion is in the first phase of its people's war strategy, which calls for limited armed attacks complemented by propaganda efforts and nonviolent activities. Moreover, while the NPA has been able to support its current expansion effort with weapons obtained domestically, we believe it will have to secure arms from abroad if it intends to launch a major offensive against the government by 1984 or 1985. [REDACTED]

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[REDACTED]

Major problems may prevent the party from realizing these ambitious goals:

- Decentralization to ensure survivability has led to a weak central leadership unable to control regional committees and coordinate any major national program.
- Friction between the party leadership from northern Luzon and groups from the south, where the party's major expansion is occurring.
- Lack of external funding, which could constrain the party's expansion and recruitment efforts.
- Recent capture or killing of important party leaders.

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The steady expansion of NPA forces over the past few years has forced Manila to move some military units out of the southern Philippines, where they had been directed against a now relatively inactive Muslim rebellion. Manila, however, cannot count on the Muslim rebellion remaining dormant despite the government's success in coopting rebel leaders and a Middle East diplomacy that has apparently reduced foreign aid to the Muslim rebels. [REDACTED]

Philippine forces, already understrength and weakened by budget cuts, would be sorely tested if the NPA manages to secure foreign weapons or finances. We believe prospects for such aid are strong in the next few years. Despite Philippine government allegations, however, we have seen no evidence of direct Soviet arms support for the rebels. In the unlikely event the NPA and the Muslims agree to coordinate operations, the Philippine military forces would be strained even more. [REDACTED]

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Only recently has the government shown signs that it is starting to deal seriously with its military deficiencies. General Ver, following up on a promise to crack down on military abuses, recently dismissed 200 men including nine officers, for offenses ranging from murder to indiscriminate firing of weapons. In a policy shift that reflects Marcos's growing concern about the NPA insurgency, the President issued new guidelines on defense policy in April 1982 designed to improve the military's near-term counterinsurgency capabilities. [REDACTED]

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[REDACTED]

The United States can expect to come under increasing pressure to support Manila's anti-insurgency efforts in the next few years. Although it is highly unlikely that Manila would request US personnel to aid the counterinsurgency efforts, requests have already been made for help in modernizing the Philippine military. However, increased materiel support could hasten the likelihood of rebel attacks against US military bases, government facilities, and business interests. [REDACTED]

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Postscript: After Marcos

Marcos has not designated a successor. Under the Constitution, his death would trigger a succession process that creates a caretaker government broadly representative of the present regime. Marcos has undermined the credibility of this procedure, however, by depositing succession instructions with the military, but we believe the military would observe the constitutional process. [REDACTED]

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Imelda Marcos wants to succeed her husband and she has a reasonable chance to do so. But she has many enemies and would need a period of years to mend fences in order to duplicate his strong rule. Although the President has denied any intention of having his wife succeed him, Mrs. Marcos has assumed many official duties over the last decade and might be the one possible successor who could command the loyalty of the New Society Movement's political machinery. The mechanism for such a succession is now closer to being in place, however, with Mrs. Marcos's appointment in August to the Executive Committee. In the event of Marcos's death, she would be a formal part of the interim government, and thus a force to be reckoned with. [REDACTED]

Over the longer term, the durability of a successor government would depend on its ability to control, neutralize, or coopt the country's key interest groups. The armed forces and the Catholic Church leadership will probably be the stabilizing influences. The Communist insurgency and urban leftists will present the key forces for instability. Although any new government would require considerable time to consolidate power, we believe it is unlikely that the transition would adversely affect US economic and security interests. [REDACTED]

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28 September 1982

MEMORANDUM FOR: Acting Director of Central Intelligence
THROUGH: Deputy Director for Intelligence
FROM:
Acting Director of East Asian Analysis
SUBJECT: Secretary of Defense Request on Philippine
Base Negotiations

DDI- 7547-82/1
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1. In response to Secretary Weinberger's request to you for a "flow of assessments" between now and next April to support the Philippine Base Negotiations, we will prepare a response for you to send the Secretary by 30 September. In the meantime, Bob Gates has asked us to give you a preliminary report on how we propose to respond to the Secretary.

2. OEAA and OGI have been producing a steady stream of finished intelligence covering the Secretary's three areas of concern, in part to support preparations for President Marcos' recent State visit to the United States. This work will continue and will be focused on supporting the Philippine Base Negotiations.

3. Your 30 September response to Secretary Weinberger will include a typescript memorandum incorporating the key judgments of a series of analytical reports produced by CIA during the past year, as well as a list of the reports. We will also list and discuss our projected CIA research on these topics as well as provide assurance that we will send him typescript memoranda and current intelligence related to the Base Negotiations. In addition, we will assure the Secretary that these topics will be aggressively covered in the PDB.

4. You should be aware that we are in direct and steady contact with Rich Armitage, Deputy Assistant Secretary of Defense for East Asian and Pacific Affairs, on this issue.

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OD/OEA: [REDACTED] (27 Sep82)

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September 21, 1982

NOTE FOR: D/OEA

Jim,

The DDI suggests that we provide to SecDef a preliminary response to the issues he raises in the attached by 15 October. Include in that assessment what we will be doing for him through April 1983. Also, please provide, by COB 22 September, a note back to the DDCI letting him know that we received his memo and what we propose to do as a result. I am assuming we will need to get OGI involved in the insurgency part of the response. Thanks.



DDI ACTION OFFICER

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LABORATORY REPORT
82-12049

17 September 1982

MEMORANDUM FOR: Deputy Director for Intelligence
FROM : EA/DDCI
SUBJECT : Philippine Base Negotiations

In anticipation of the Philippine Base Negotiations, the Secretary of Defense today asked to be provided on an as-available-basis between now and April a "flow of assessments" on the following:

- Any financial/economic developments that might affect the negotiations.
- Any insurgency in the Philippines and its potential impact on the base negotiations.
- Any Philippine weaknesses that could have an impact on the negotiations or be exploited by us.



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